

_____ BILL NO. _____

INTRODUCED BY _____
(Primary Sponsor)

BY REQUEST OF THE STATE AUDITOR

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING HOW FARM MUTUAL INSURERS ELECT DIRECTORS AND MAKE INVESTMENTS; AND AMENDING SECTIONS 33-4-309 AND 33-4-403, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 33-4-309, MCA, is amended to read:

"33-4-309. Directors -- election and term. (1) ~~Directors~~ Members of a farm mutual insurer shall ~~be elected by its members by ballot~~ elect directors for terms not to exceed 3 years ~~and. A director shall hold office until their respective successors are~~ a successor is elected and have has qualified.

(2) ~~No~~ An individual ~~shall~~ may not serve as a director unless the individual is a member of the insurer."

Section 2. Section 33-4-403, MCA, is amended to read:

"33-4-403. Investments. (1) ~~When directed by a majority vote of its members present at a meeting of members, the~~ The directors of a farm mutual insurer may invest or may appoint and authorize a committee to invest or approve investment of the insurer's funds or any part of the funds in any of the following:

(a) bonds or other securities issued by the United States government or by any agency of the United States;

(b) bonds or other obligations the payment of the interest and principal of which is assumed or guaranteed by the United States government or any agency of the United States;

(c) general obligation bonds or warrants of any state, county, or city, when approved by the commissioner;

(d) loans secured by a first mortgage on real estate situated in the state of Montana but subject to the provisions of subsection (3);

(e) common stock of a domestic insurer formed as an affiliate company to two or more farm mutual insurers for the purpose of offering companion insurance products that farm mutual insurers are prohibited from

1 selling. The investment may not exceed one-third of the assets of the farm mutual insurer.

2 (f) corporate bonds that are rated A3 or better by Moody's investor service, inc., or A- or better by
3 Standard and Poor's corporation and that are issued with the full credit of the parent corporation. An investment
4 in corporate bonds may not exceed 20% of the total assets of the mutual insurer, and no more than 5% of the
5 total assets of the mutual insurer may be invested with one corporation.

6 (g) money market funds as defined by rules adopted by the commissioner. An investment in money
7 market funds may not exceed 20% of the total assets of the mutual insurer, and no more than 5% of the total
8 assets of the mutual insurer may be invested in a single money market fund.

9 ~~(2) At the time of making an investment the document evidencing the investment must be stamped with~~
10 ~~the name of the insurer with the following notation printed or written on the document: "Negotiable only upon the~~
11 ~~order of the Board of Directors of (naming the insurer)."~~

12 (2) If a committee appointed under subsection (1) makes or approves an investment, the committee shall
13 record the committee action in its minutes and periodically submit the minutes to the board of directors.

14 (3) A real estate loan may not be for more than 60% of the appraised value of the real estate securing
15 the loan, and the appraisal must have been made within 30 days prior to the date of the loan. The loan may not
16 be for a term longer than 10 years. The loan amount may not exceed 1% of the company's admitted assets. This
17 subsection does not prevent the renewal or extension of loans already made and does not apply to real estate
18 loans that are insured under the provisions of any act of the congress of the United States or to the making,
19 extension, or renewal of any loans that are made under subchapter II of the act of congress known as the
20 "Servicemen's Readjustment Act of 1944", ~~or any amendment thereof or supplement thereto~~ including
21 amendments or supplements in effect as of [the effective date of this act], as to any part of the loans. This
22 subsection does not prevent an insurer from taking another and immediately subsequent mortgage or deed of
23 trust when ~~it the insurer~~ already holds a first mortgage or deed of trust on the same real estate or from accepting
24 a second lien on real estate to secure the payment of a debt previously contracted in good faith. This subsection
25 does not prevent subsequent liens of any kind from being taken to secure the payment of a debt previously
26 contracted in good faith when in the judgment of the insurer's board of directors the subsequent liens are
27 necessary to further secure the payment of any debts and save the insurer from loss.

28 (4) A farm mutual insurer may invest not more than 10% of its admitted assets in real estate or real
29 estate mortgage investments, including an investment in real estate for use as the insurer's home office.

30 (5) A farm mutual insurer may contract with any national or state bank, trust company, or securities

1 brokerage firm to act as custodian for the insurer's securities. If a contract is entered, the contract must contain
2 an indemnification agreement stating that the custodian is obligated to indemnify the insurer if the custodian
3 loses any of the insurer's securities that are in the custodian's possession."

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